



# FY2015 FULL YEAR RESULTS PRESENTATION

17 AUGUST 2015

[www.industriareit.com.au](http://www.industriareit.com.au)  
ASX CODE: IDR



**INDUSTRIAREIT**

An APN Property Group fund



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# HIGHLIGHTS





# Industria REIT Highlights

Over **18,800 sqm** leasing transactions in FY2015 and over **10,700<sup>1</sup> sqm** post balance date for a total of **29,557 sqm**

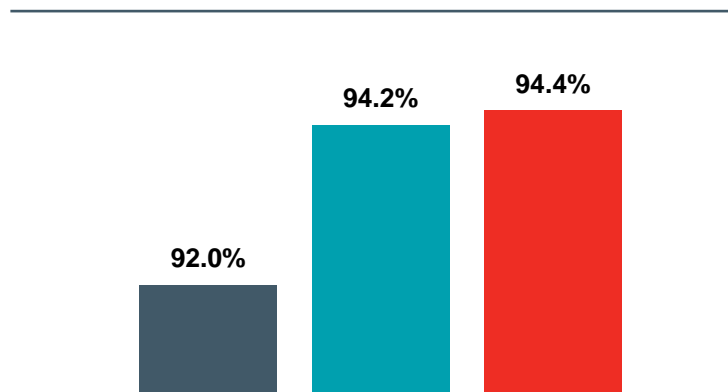
Significantly reduced lease expiry in FY2016 and FY2017

Sold **53 Brandl St (BTP)** at a premium to book value

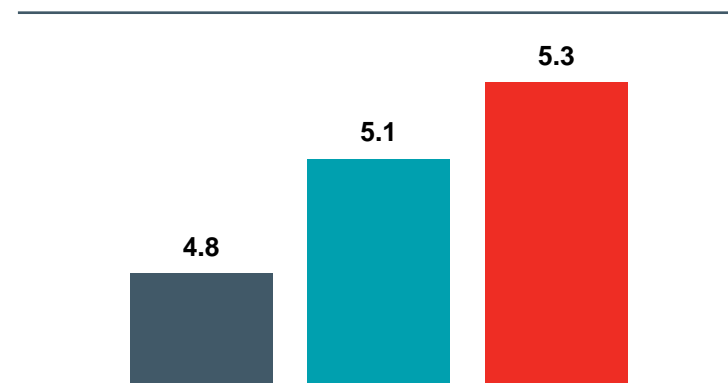
FY2015 Distribution of **16.2 cents per Security**

1. As at 31 July 2015. Includes certain transactions subject to documentation and approvals (refer Slide 13 for details)

### Occupancy (by area)



### WALE (years by area)



■ 30 June 2015

■ 31 July 2015 completed

■ 31 July 2015 completed and subject to documentation and approvals



## Industria key metrics

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- ▶ Portfolio value **\$400 million**
- ▶ **161,228** square metres of Net Lettable Area across 17 assets
- ▶ Weighted average portfolio cap rate **8.13%**
- ▶ Occupancy **94.4%**<sup>1</sup>
- ▶ Weighted average lease expiry (WALE) **5.3 years**<sup>1</sup>
- ▶ NTA per Security \$2.02 (or **\$2.05** excluding MTM of interest rate swaps)
- ▶ Gearing **33.4%**<sup>2</sup>
- ▶ FY2016 Distribution guidance **15.0 to 15.8 cents per Security**<sup>3</sup> subject to market conditions and no unforeseen events

1. By area, as at 31 July 2015. Includes certain transactions subject to documentation and approvals (refer Slide 13 for details). Occupancy 92.0% and WALE 4.8 years (by area) respectively as at 30 June 2015
2. Debt less cash divided by the value of the Portfolio
3. Refer Slide 26 for further details



# FY2015 Results Summary

## Distribution of 16.2 cps together with improved occupancy and WALE

1

### Distribution of 16.20 cents per Security

- Distribution of 16.20 cents per Security declared for FY2015 (consistent with February 2015 guidance)
- Distributable earnings of \$20.3 million
- Tax deferred component of 45.5%

2

### Recent leasing success in challenging market conditions

- Active asset management in challenging market conditions (particularly Brisbane)
- 29,557 sqm of space has been leased since 1 July 2014<sup>1</sup>
- 18,839 sqm of space was leased or renewed by existing tenants in FY15
- A further 10,718 sqm of space was leased or renewed by existing tenants post balance date<sup>1</sup>

3

### Property portfolio metrics improved despite challenging market conditions

- WALE of 4.8 years by Net Lettable Area increasing to 5.3 years<sup>1</sup> post balance date
- Occupancy of 92.0% increasing to 94.4% post balance date<sup>1</sup>
- Net Tangible Assets per Security increased to \$2.02 as at 30 June 2015 or \$2.05 excluding derivatives
- Weighted average cap rate of 8.13% firming from 8.29% as at 30 June 2014
- Reduced lease expiry in FY16 to 0.5%<sup>3</sup> of portfolio from 5.7% as at 30 June 2015
- Reduced lease expiry in FY17 to 9.7%<sup>3</sup> of portfolio from 12.1% as at 30 June 2015
- 53 Brandl Street, BTP sold above its book value

1. As at 31 July 2015. Includes certain transactions subject to documentation and approvals (refer Slide 13 for details)



# FY2015 Results Summary (cont'd)

## Consistent capital management approach

- 4 Capital structure maintained, capital actively managed**
- Maintained Gearing<sup>1</sup> at lower end of target range (30-40%): 33.4% as at 30 June 2015
  - Weighted average debt term of 3.4 years
  - Weighted average all-in cost of the debt 4.4% p.a.
  - Implemented on market Security buy-back purchasing 1.5 million Securities below NTA in FY2015

- 5 Distribution guidance**
- FY2016 distribution guidance of 15.0 to 15.8 cents per Security
  - Low end of distribution range assumes:
    - no further new leasing other than transactions which have been completed as at 17 August 2015;
    - current market conditions continue; and
    - no unforeseen events occur, including tenant defaults
  - This represents a forecast FY2016 cash distribution yield of 8.1% to 8.5%<sup>1</sup>

1. Debt less cash divided by value of Portfolio  
2. Based on price of \$1.85 per Security as at 12 August 2015

# FINANCIAL RESULTS







# Income and distributions

- IDR distributed 16.20 cents per Security in FY2015 in line with guidance in February 2015
- As previously advised net rental income is lower than IPO forecast principally due to longer than forecast vacancy periods particularly in Brisbane; FY2015 Distributions per Security were 3.1% lower than Oct 2013 IPO forecasts
- **Note:** portfolio for FY2015 differs to IPO portfolio (88 Brandl Street – IDR now owns 100%<sup>2</sup>, 53 Brandl Street – sold in FY15)

\$000s (unless otherwise stated)	Actual	October
	FY2015	2013 IPO Forecast FY15
Statutory net profit	22,772	23,800
Distributable Earnings	20,313	21,300
Distributions	20,131	20,900
Securities on issue (millions)	123.5	125.0
Statutory Earnings per Security (cents)	18.2	19.0
<b>Distribution per Security (cents)</b>	<b>16.20</b>	<b>16.72<sup>1</sup></b>
Payout ratio (%)	99%	98%
Tax deferred component of Distribution	45.5%	49.0%

1. Revised guidance provided in February 2015 of 16.20 to 16.72 cents per Security  
 2. IDR owned a 50% interest in the property at IPO



# Balance sheet

- Gearing 33.4% within target range of 30% - 40%
- 53 Brandl Street, BTP sold above book value
- Improved NTA per security to \$2.05 from \$2.01 as at FY2014, excluding derivatives

\$000s (unless otherwise stated)	Actual FY15	Actual FY14	Change
Investment properties	399,883	403,971	▼
Total assets	406,356	410,219	▼
Total liabilities	156,518	160,095	▼
Net tangible assets	249,838	250,124	▼
Securities on issue (millions)	123.5	125.0	▼
<b>Net Tangible Assets per Security</b>	<b>\$2.02</b>	<b>\$2.00</b>	<b>▲</b>
<b>Net Tangible Assets per Security (Excluding derivatives liability)</b>	<b>\$2.05</b>	<b>\$2.01</b>	<b>▲</b>
Gearing <sup>1</sup>	33.4%	33.4%	-

1. Debt less cash divided by value of Portfolio

# PORTFOLIO PERFORMANCE

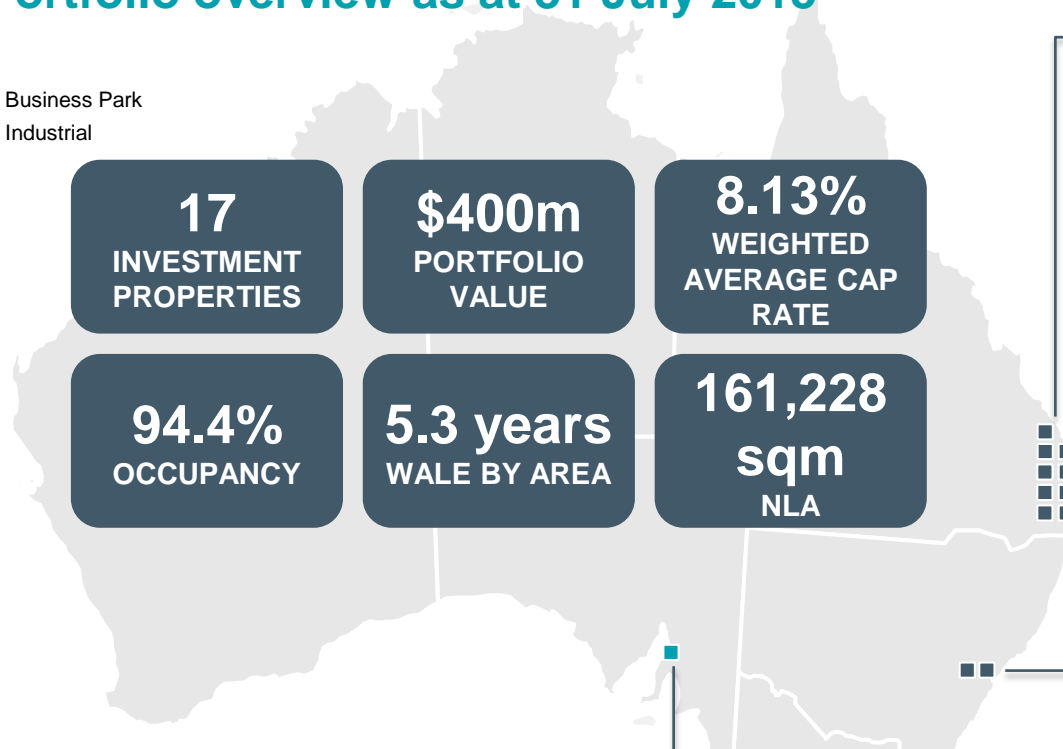




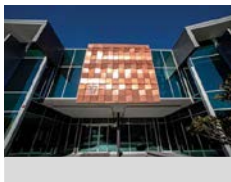
# Industria REIT portfolio overview<sup>1</sup>

## Portfolio overview as at 31 July 2015

- Business Park
- Industrial



**Brisbane, Queensland**



Sector	Business Park
Investment properties	9
Value (\$ million)	170.5
Weighted avg. cap rate	8.47%
Occupancy (by area)	82.9%
WALE (years by area)	3.9

37 Brandl Street, BTP

**Sydney, New South Wales**




Sector	Business Park
Investment properties	2
Value (\$ million)	132.6
Weighted avg. cap rate	7.60%
Occupancy (by area)	91.0%
WALE (years by area)	5.3

Building C, 1 Homebush Day Drive

**Adelaide, South Australia**

Sector	Industrial
Investment properties	1
Value (\$ million)	12.8
Weighted avg. cap rate	10.00%
Occupancy (by area)	100%
WALE (years by area)	2.5



5 Butler Boulevard, Adelaide Airport

**Melbourne, Victoria**



Sector	Industrial
Investment properties	5
Value (\$ million)	83.95
Weighted avg. cap rate	8.02%
Occupancy (by area)	100%
WALE (years by area)	6.3

140 Sharps Road, Tullamarine

1. As at 31 July 2015. Includes certain transactions subject to documentation and approvals (refer Slide 13 for details)



# Leasing success – summary

FY 2015

Property	Tenant	NLA (sqm)	Type	Status
32 Garden Street, Kilsyth	RFS	10,647	Extension	Complete
7 Clunies Ross Court, BTP	Interactive	2,162	Extension	Complete
7 Clunies Ross Court, BTP	Interactive	2,000	New	Complete
5 Butler Boulevard, Adelaide Airport	Toyota	2,859	New	Complete
Rhodes Building C, RBP	ABC Consulting	420	New	Complete
6 Electronics Street, BTP Central	Nexon	401	New	Complete
Rhodes Building C, RBP	Wiley & Co	350	New	Complete
<b>Total</b>		<b>18,839</b>		

Post 30 June 2015

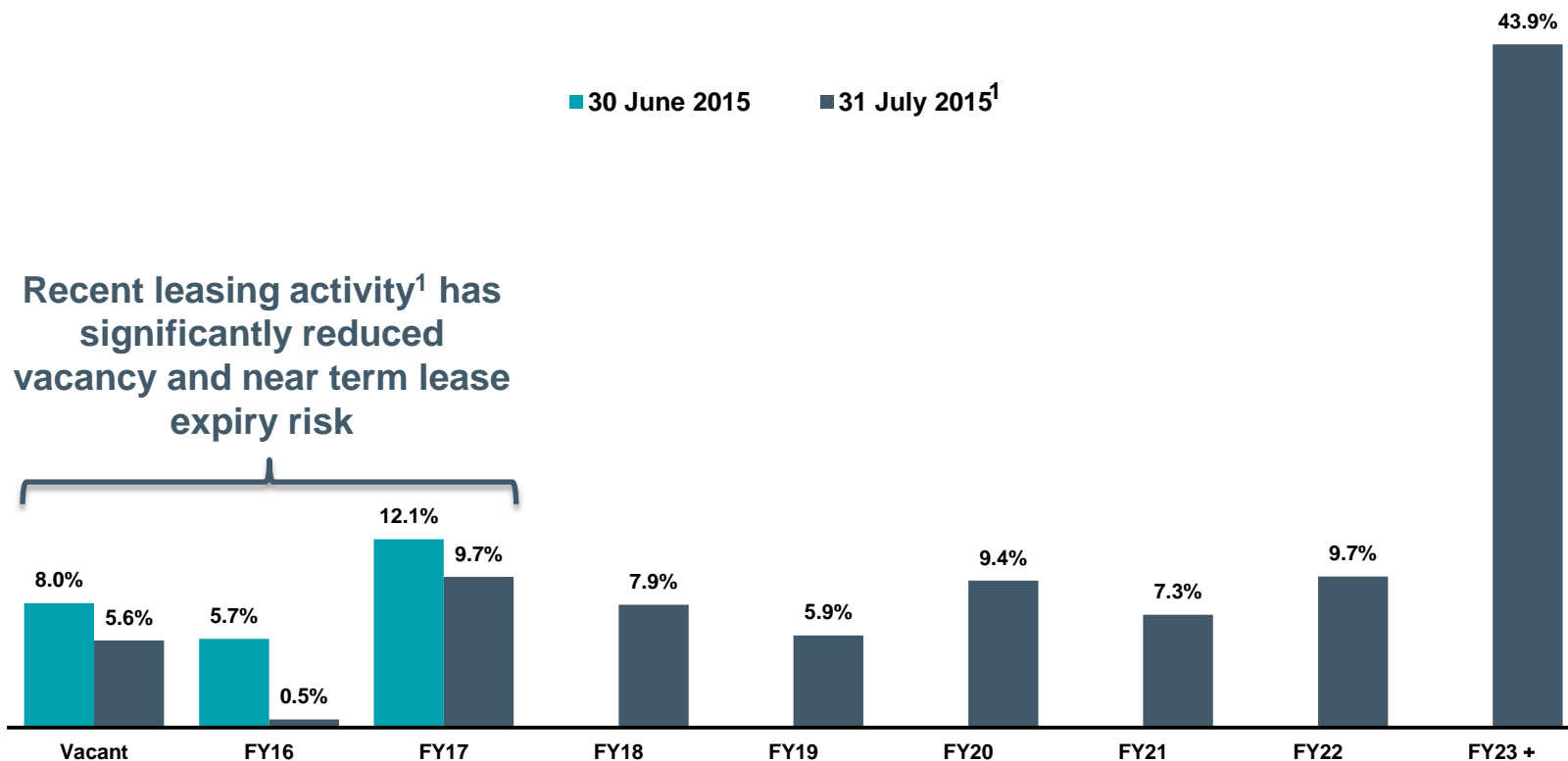
Property	Tenant	NLA (sqm)	Type	Status
7 Clunies Ross Court, BTP	BTP Services	1,641	Option exercised	Complete
7 Clunies Ross Court, BTP	Toshiba	1,525	New lease	Complete
85 Brandl Street, BTP	Zimmer	859	New lease	Complete
18 Brandl Street, BTP	BTPIQ	520	Option exercise	Complete
<b>Sub total</b>		<b>4,545</b>		
9 McKechnie Drive, BTP	J&J	2,094	Short-term Extension	In documentation
26 HiTech Court, BTP	MeT	359	Short-term Extension	In documentation
<b>Sub total</b>		<b>2,453</b>		
Building C, 1 Homebush Bay Drive, RBP	Australand	3,720	7-year Extension	HoA
<b>Total</b>		<b>10,718</b>		

**Solid leasing success to date despite challenging market conditions with a total of 29,557 sqm of NLA leased, under Heads of Agreement or in documentation since 1 July 2014**



## Key leasing success – summary (cont'd)

### Lease expiry (by area)



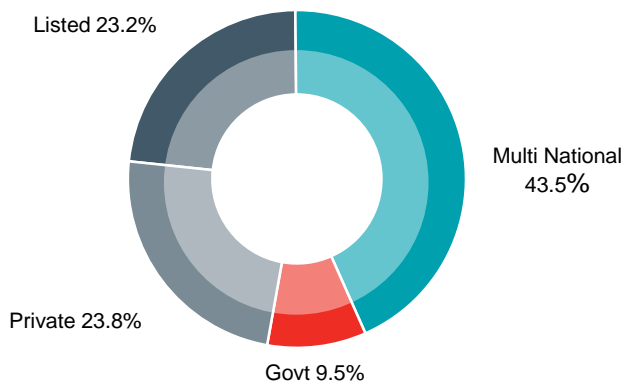
1. As at 31 July 2015. Includes certain transactions subject to documentation and approvals (refer Slide 13 for details)



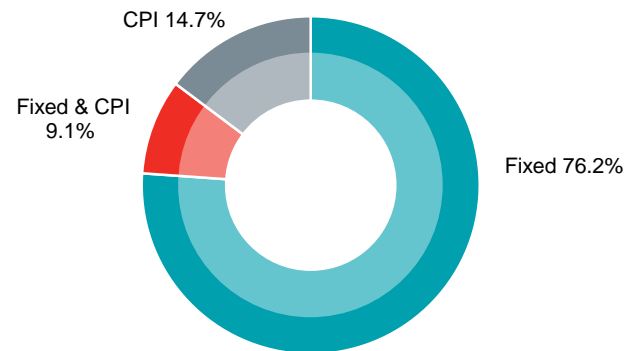
# Portfolio summary

## Components of Industria's income stream

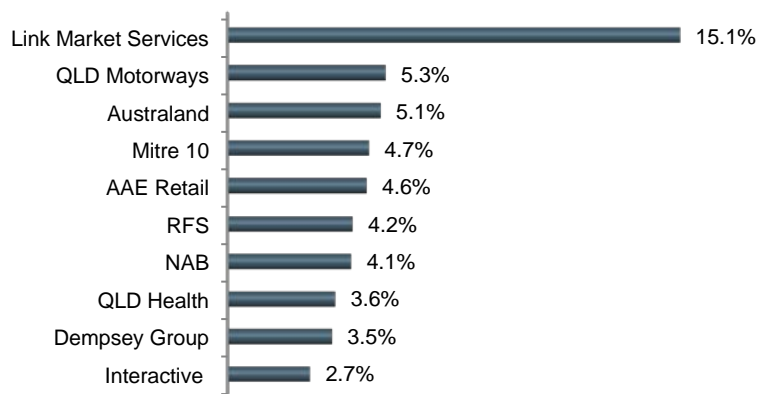
### Tenant Diversification (by income)



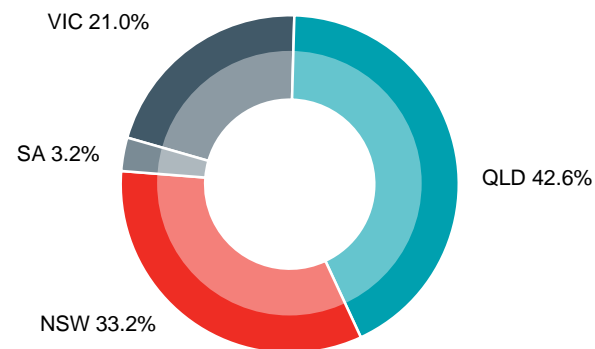
### Rental review profile



### Tenant diversification (top 10 tenants by income)



### Geographic diversification (by value)



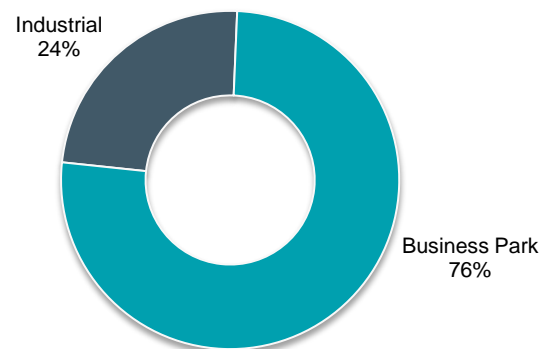


# Industria REIT portfolio overview (cont'd)

## 17 modern industrial and business park assets

- Portfolio occupancy 94.4%<sup>1</sup> as at 31 July 2015 versus 92% as at 30 June 2015
- Weighted average lease expiry of 5.3<sup>1</sup> years versus 4.8 years as at 30 June 2015
- Reduced lease expiries in FY2016 to 0.5%<sup>1</sup> of portfolio from 5.7% as at 30 June 2015
- Reduced lease expiries in FY2017 to 9.7%<sup>1</sup> of portfolio from 12.1% as at 30 June 2015

Key portfolio metrics	30 June 2014	30 June 2015	31 July 2015
Investment properties	18	17	<b>17</b>
Portfolio value (\$ million)	404	400	<b>400</b>
Weighted average cap rate	8.29%	8.13%	<b>8.13%</b>
Occupancy (by area)	93%	92%	<b>94.4%<sup>1</sup></b>
WALE (years by area)	5.0	4.8	<b>5.3<sup>1</sup></b>



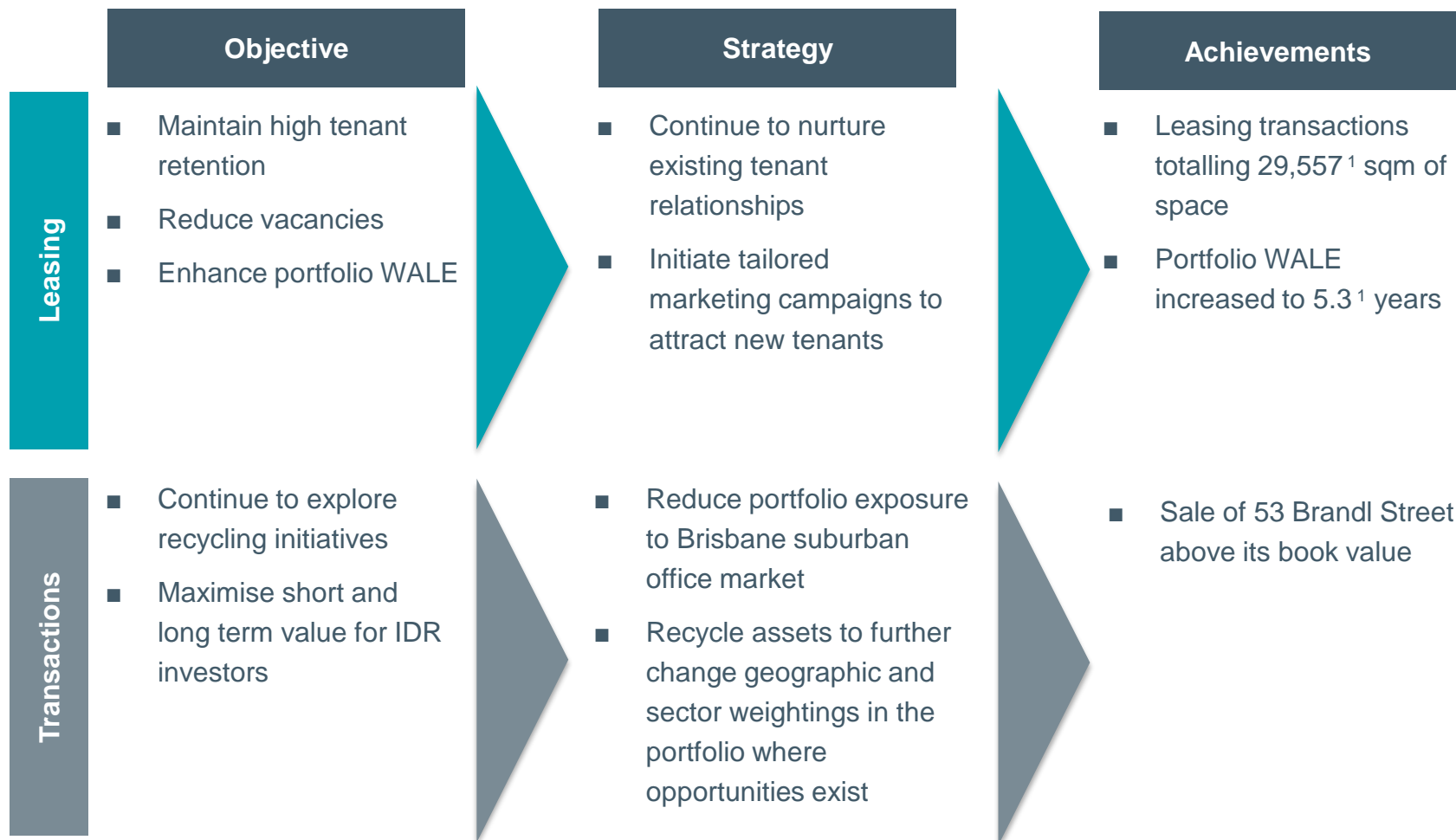
1. As at 31 July 2015. Includes certain transactions subject to documentation and approvals (refer Slide 13 for details)





# Portfolio and management strategy – overview

## Industria's portfolio continues to be actively managed



<sup>1</sup> Including leases subject to documentation and approvals

# CAPITAL MANAGEMENT





# Active capital management approach

## Gearing level maintained, debt terms improved, buy back undertaken

### Gearing

- Gearing<sup>1</sup> of 33.4%
- Target gearing range of 30% to 40%

### Debt

- Multiple lenders (ANZ and NAB) – staggered debt expiries
- Facility limit: \$155m – drawn: \$135.6m
- Facilities extended and repriced, reduced interest margins and line fee costs, effective February 2015
- Weighted average all-in cost of debt of 4.4%
- Weighted average debt expiry 3.4 years

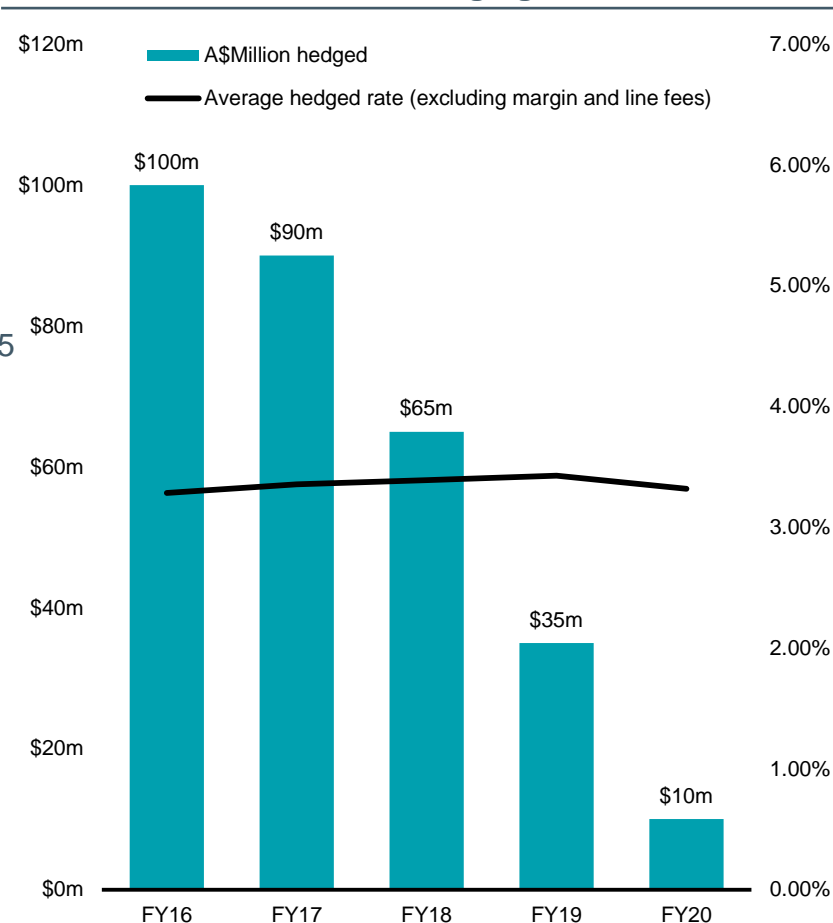
### Interest Rate Hedging

- Hedging profile consistent with stated policy
- Weighted average duration of hedges 2.4 years

### Buy-back

- Approximately 1.5 million Securities bought back below NTA

Interest Rate Hedging Profile



1. Debt less cash, divided by the value of the Portfolio



# Capital Management and Distribution Policy

## Reporting Funds From Operations (FFO)

- IDR has moved to Funds From Operations (FFO) for determining distributable profit from 1 July 2015
- FFO will be determined by adjusting statutory net profit (under AIFRS) for:
  - Deferred tax
  - Straight lining of rental income
  - Rent free periods and amortised lease incentives
  - Property valuation adjustments
  - Mark to market adjustments for derivatives
  - Other non-cash items such as amortisation of debt establishment fees
- This will allow investors and analysts to benchmark IDR's performance on a more widely used basis amongst AREITs
- Distributions will be based on a payout ratio of between 95% and 100% of FFO for FY2016
- The payout ratio will be set with consideration to ongoing maintenance capital expenditure requirements as part of ongoing capital management

# OUTLOOK





## Market outlook – Transaction activity

### Property investor interest remains firm

- Investment volumes remain strong as international investors remain active in the market
- Investment yields expected to continue firming for modern well located assets
- The sale of 53 Brandl Street, BTP was completed in December 2014, capitalising on a strong transaction market
- Recycling initiatives continue to be explored, with the objective of reducing the portfolio's exposure to the suburban office market in Brisbane
- These initiatives, including any decision to buy or sell a particular property, will be pursued with the objective of maximising value for IDR's investors
- In seeking to maximise value for IDR's investors, due consideration will be given to occupancy, weighted average lease expiry and future cash flow growth potential when considering any acquisition or divestment opportunity

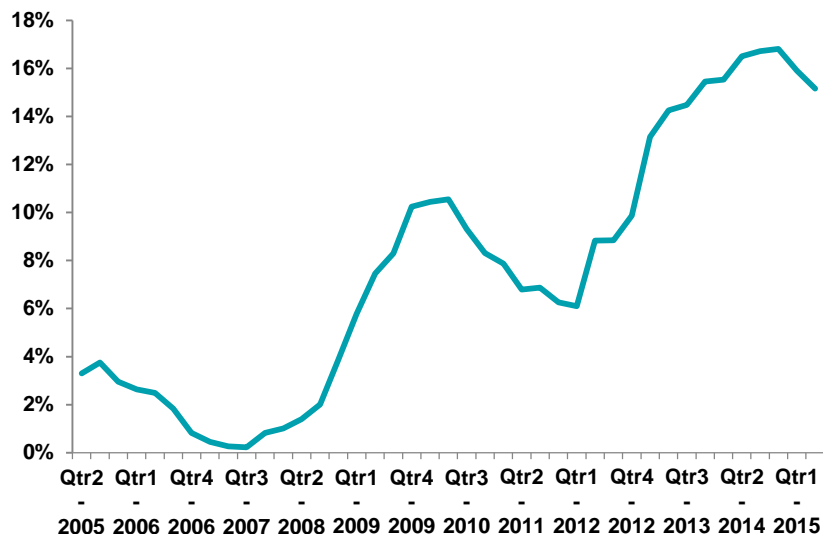


# Market outlook – Occupier markets

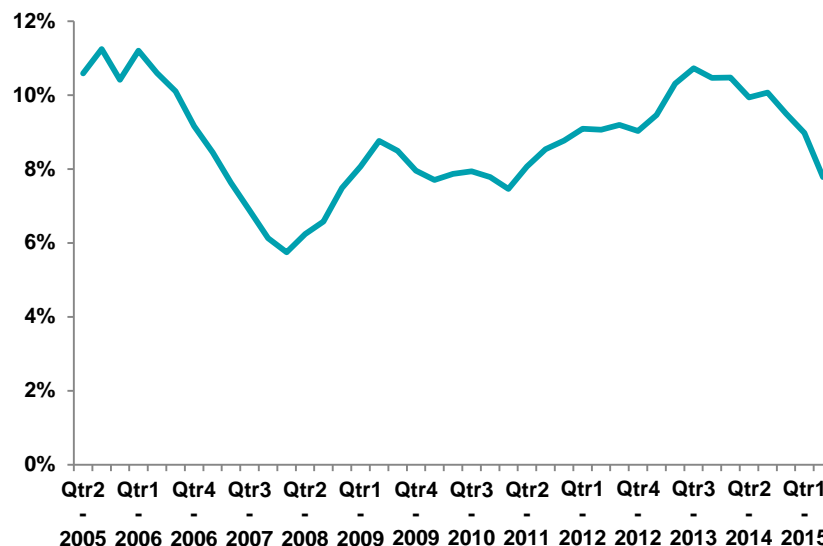
## Leasing conditions remain subdued in certain markets

- Following a period of relatively subdued growth the Sydney suburban office market is showing modest signs of recovery in occupier demand
- The Queensland economy is still struggling from the decline in the resources sector which is evidenced in the spike in the CBD vacancy rate
- At present there are no signs of improvement in either tenant demand or leasing terms across the Brisbane suburban office property market

### Brisbane CBD Vacancy



### Sydney CBD Vacancy





# Outlook – Industria REIT

**Industria remains focussed on its objective of delivering stable cash returns with the potential for income and capital growth**

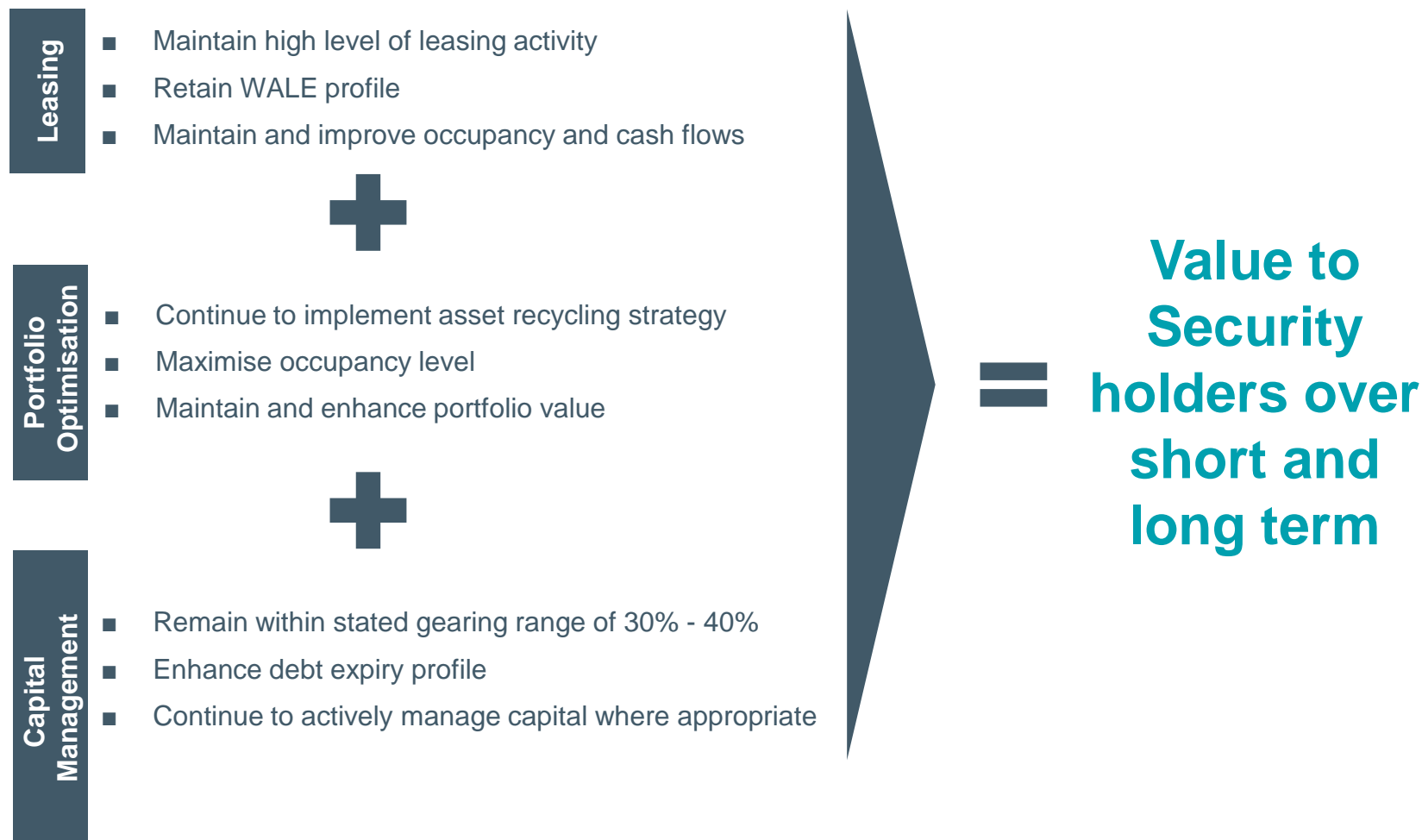
- **A quality portfolio of workspace assets underpins Industria REIT**
  - Focus on industrial and business park assets that provide tenants with modern, cost effective and practical spaces to meet their business needs
  
- **Leases to a diversified tenant base providing a secure and growing income stream**
  - Rental income underpinned by high occupancy and long leases to reputable tenants
  - Majority of income growth derived from fixed and / or CPI-linked rental increase
  - Continue to focus on asset management initiatives and leasing objectives whilst pursuing acquisition and divestment opportunities





# Outlook – Objective

## Industria's objective of delivering stable cash income is unchanged





# FY2016 Distribution per Security guidance

## Forecast FY2016 Distribution yield in excess of 8.0%

- Consistent with our view of the market, FY2016 distribution guidance is 15.0 to 15.8 cents per Security
- Low end of distribution range assumes:
  - no leasing activity other than transactions which have been completed as at 17 August 2015;
  - current market conditions continue; and
  - no unforeseen events occur, including tenant defaults
- Based on price per Security of \$1.85 as at 12 August 2015 this represents a forecast cash Distribution yield of 8.1% to 8.5%



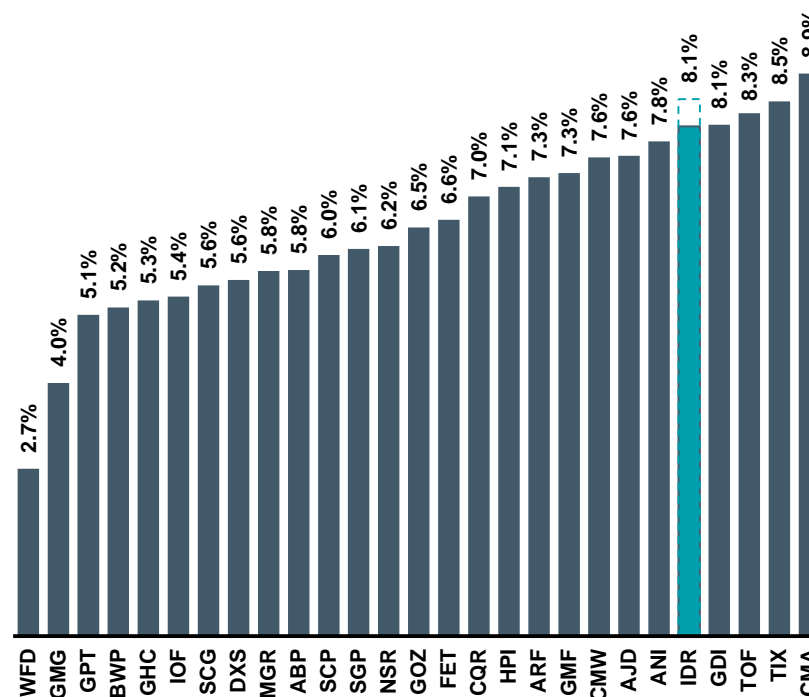
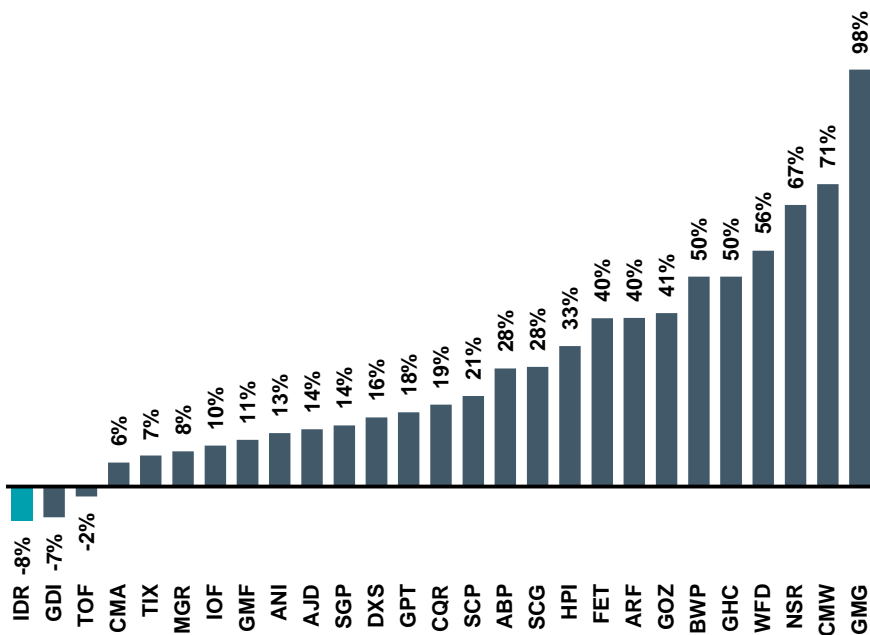
1. Based on Security price of \$1.85 at 12 August 2015



# Attractive comparative yield and metrics

## AREIT Premium to NTA<sup>1</sup>

## AREIT FY2016 Forecast Distribution Yields<sup>1</sup>



Source: APN, Bloomberg and company announcements/estimates based on unit prices as at market close on 12 August 2015

1. Based on Security price of \$1.85 as at 12 August 2015 (refer Slide 26 for details on Distribution guidance)

# APPENDICES



# APPENDIX A

## Detailed Property Portfolio





## Portfolio details as at 30 June 2015

Property	State	Ownership	Sector	Valuation (\$m)	Cap Rate	NLA (sqm)	Occupancy (by area)	WALE (by area)	NPI (\$m)
34 Australis Drive, Derrimut	VIC	100%	Industrial	21.7	7.75%	25,243	100%	7.43 yrs	1.783
80-96 South Park Drive, Dandenong South	VIC	100%	Industrial	18.7	8.25%	20,245	100%	2.48 yrs	1.621
89 West Park Drive, Derrimut	VIC	100%	Industrial	15.8	7.75%	17,024	100%	7.16 yrs	1.335
32-40 Garden Street, Kilsyth	VIC	100%	Industrial	14.8	7.75%	10,647	100%	9.48 yrs	1.481
5 Butler Boulevard, Adelaide Airport	SA	100%	Industrial	12.8	10.00%	12,257	100%	1.64 yrs	1.370
140 Sharps Rd, Tullamarine	VIC	100%	Industrial	13.1	8.75%	10,508	100%	7.26 yrs	1.468
7 Clunies Ross Court and 17-19 McKechnie Drive, BTP	QLD	100%	Bus Park	37.2	8.50%	8,937	59%	3.68 yrs	1.470
BTP Central, BTP	QLD	100%	Bus Park	39.7	7.78%	7,783	81%	3.55 yrs	2.897
8 Clunies Ross Court and 9 McKechnie Drive, BTP	QLD	100%	Bus Park	23.5	8.75%	5,681	81%	1.66 yrs	2.293
7 Brandl Street, BTP	QLD	100%	Bus Park	22.2	8.50%	5,264	88%	4.79 yrs	1.785
37 Brandl Street, BTP	QLD	100%	Bus Park	13.7	8.75%	3,329	100%	2.28 yrs	1.289
18 Brandl Street, BTP	QLD	100%	Bus Park	11.8	9.00%	4,174	47%	0.97 yrs	0.637
88 Brandl Street, BTP	QLD	100%	Bus Park	14.0	8.88%	3,283	100%	1.82 yrs	1.066
85 Brandl Street, BTP	QLD	100%	Bus Park	5.0	9.25%	1,627	0%	0.00 yrs	-0.023
Building A, Rhodes	NSW	100%	Bus Park	81.0	7.50%	14,644	100%	5.74 yrs	6.147
Building C, 1 Rhodes	NSW	100%	Bus Park	51.6	7.75%	10,582	79%	2.04 yrs	2.816
Land (Lot 3 Brandl Street)	QLD	100%	Bus Park	1.0	N/A	-	-	-	-
Land (45 and 45B BTP Central)	QLD	100%	Bus Park	2.5	N/A	-	-	-	-
53 Brandl Street, BTP	QLD	Nil (sold)	Bus Park	-	-	-	-	-	0.209
<b>Total</b>				<b>400</b>	<b>8.13%</b>	<b>161,228</b>	<b>92.0%</b>	<b>4.8 yrs</b>	<b>29.644</b>

# APPENDIX B

## Financial Information





# Balance sheet

	30 June 2015
	\$'000s
<b>Assets</b>	
Cash and cash equivalents	1,873
Trade and other receivables	3,992
Other current assets	519
<b>Total current assets</b>	<b>6,384</b>
Investment properties	399,883
Other assets	89
<b>Total non-current assets</b>	<b>399,972</b>
<b>Total assets</b>	<b>406,356</b>
<b>Liabilities</b>	
Trade payables and other provisions	(6,600)
Derivative instruments	(1,216)
Distribution payable	(9,681)
<b>Total current liabilities</b>	<b>(17,497)</b>
Trade and other payables	(180)
Deferred tax liability	(2,303)
Derivative instruments	(1,869)
Long-term borrowings	(134,669)
<b>Total non-current liabilities</b>	<b>(139,021)</b>
<b>Total liabilities</b>	<b>(156,518)</b>
<b>Net assets</b>	<b>249,838</b>
Number of Securities (millions)	123.5
NTA per Security (\$)	2.02





# Profit & Loss

	Actual FY2015	October 2013 IPO Forecast
	\$'000	\$'000
<b>Income</b>		
Net rental income (including straight lining adjustments)	29,644	32,200
Share of equity accounted profit	-	600
<b>Total revenue from continuing operations</b>	<b>29,644</b>	<b>32,800</b>
<b>Expenses</b>		
Trust management fees	(2,219)	(2,200)
Recurring trust costs	(591)	(600)
<b>Total expenses</b>	<b>(2,810)</b>	<b>(2,800)</b>
<b>Net operating income (EBIT)</b>	<b>26,834</b>	<b>30,000</b>
Net gain in fair value adjustments on investment properties	3,257	-
Gains on disposal of investment properties	668	-
Unrealised loss on mark to market of interest rate swaps	(1,776)	-
Net interest expense	(6,215)	(6,200)
<b>Net income before tax</b>	<b>22,768</b>	<b>23,800</b>
Income tax – current	(74)	-
Income tax – deferred	78	-
<b>Net profit after tax</b>	<b>22,772</b>	<b>23,800</b>



# Distribution reconciliation

	Actual FY2015	October 2013 IPO Forecast
	\$'000	\$'000
<b>Comprehensive income / Statutory profit</b>	<b>22,772</b>	<b>23,800</b>
Adjust for:		
Straight lining adjustments included in rental revenue	(1,223)	(2,700)
Deferred tax	(78)	-
Amortised borrowing costs	323	200
FV gain on investment properties	(3,257)	-
FV loss on mark to market of derivatives	1,776	-
<b>Distributable Earnings</b>	<b>20,313</b>	<b>21,300</b>
<b>Distribution</b>	<b>20,131</b>	<b>20,900</b>
Distribution per Security (cents)	16.20	16.72
Payout ratio (Distribution / Distributable Earnings)	99%	98%

From 1 July 2015 Industria REIT has adopted a new definition for reporting earnings. Industria REIT will report and guide to FFO from FY2016 and beyond. Below is an illustrative reconciliation of FY2015 FFO.

<b>Distributable Earnings</b>	<b>20,313</b>
Add back amortised lease incentives	985
FFO Distributable Earnings	21,298
Payout ratio (Distribution / FFO Distributable Earnings)	94.5%



# Disclaimer

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